

# Memorandum

To: Panel Members Date: January 23, 2003

From: Dolores Kendrick, Manager Analyst: M. Paccerelli  
Peter DeMauro, General Counsel

Subject: One-Step Agreement for **Sears Logistics Services, Inc.**  
(No website)

## **CONTRACTOR:**

- Training Project Profile: Retraining: companies with out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
  - Company Wide: 90,000
  - In California: 9,697
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$334,880
- Substantial Contribution: \$100,464
- Total ETP Funding: \$234,416
- In-Kind Contribution: \$341,320
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Kern
- Duration of Agreement: 24 months

**SUBCONTRACTORS:**

Bakersfield College, Bakersfield, California	\$20,000 to provide Computer Skills training
California State University, Bakersfield, California	\$23,000 to provide Continuous Improvement Skills training
Dale Carnegie, Bakersfield, California	\$68,580 to provide Continuous Improvement Skills training
The Training Institute, Clovis, California	\$10,500 to provide Manufacturing Skills training
Training Funding Partners, Irvine, California	\$11,721 to provide Administration Services

**THIRD PARTY SERVICES:**

Training Funding Partners helped develop the Contractor's training program and completed the application for ETP funds. Amount reimbursed for services is \$15,000, which the applicant states is based on a flat rate.

**PRIOR PROJECTS:**

This is the third project for Sears Logistics Services, Delano Facility.

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET01-0196	Delano	12/31/00 – 12/30/02	\$313,014	\$208,806*	67%
ET9 -0868	Delano	10/16/98 - 10/15/00	\$165,139	\$137,436	83%

\*This data is taken from the ETP Information System. The monitor's final report dated 11/18/02 shows 312 trainees completed the retention period. If all 312 trainees meet all the Agreement requirements, Sears will accomplish a 74 percent completion rate and with total earnings of \$227,971.

**ACTIVE PROJECTS:**

The following are current project statistics with Sears Logistics Services, Inc.:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number retained for 90 days
ET02-0346	06/03/02 – 06/02/04	\$592,800	300	338	0	0

This project is in Los Angeles. Statistics are taken from the last monitoring visit conducted on 11/01/02 and the ETP Contract Status Report on 12/30/02. Contractor anticipates completing retention for the total number to be retained.

**NARRATIVE:**

Sears Logistics Services, Inc. is eligible to provide ETP training under Title 22, California Code of Regulations, Section 4416 (d)(1) as a facility that provides significant support services to the company's offices, operations, divisions, branches, stores, or franchises located outside of California and meets ETP's funding priorities of moving to a high performance workplace, Unemployment Insurance Code, Section 10200 (b).

Sears Logistics Services, Inc. (SLS) opened in March 1993 as Delano Logistics Services. SLS is one of seven retail replenishment centers operating under the umbrella of the Sears Logistics Group. The Delano facility utilizes 1,250,000 square feet and employs approximately 503 full-time employees.

As a regional warehouse facility, SLS provides warehouse distribution services on a contract invoice basis, shipping to retail stores throughout the United States, with 47 percent of the distribution volume annually coming from outside California. SLS serves as a storage facility for 424 Sears's retail and privately owned dealer stores and as a stock and inventory control point for products received from 4,000 vendors.

With previous ETP assistance, SLS began its transition to a high performance workplace by focusing on continuous improvement skills training. As a result of the training and the efficiencies created, SLS assumed the regional responsibility for the load planning function for two additional Sears's facilities, the Los Angeles Fashion Center and the Ontario Direct Deliver facility. These facilities store and ship merchandise to stores and customers nationwide.

However, in spite of the very successful outcome of the previous training initiative, SLS faces new challenges that must be addressed through training. Due to ever increasing competitive pressure, it must now upgrade and streamline systems, processes and procedures in order to meet the compressed receiving and distribution time frames demanded by the marketplace. SLS has invested over \$1.5 million in new and upgraded systems and equipment. It now plans to provide its workforce with the job skills necessary to successfully implement all of the new technologies and equipment as well as the new process and procedures that come with such change.

**COMPUTER SKILLS & CONTINUOUS IMPROVEMENT**

Sub-leads, Leads, Assistant Manager, Trainers, and Managers will receive Computer Skills and Continuous Improvement training on the following new technology systems and processes. Upon completion of this technical training, they will then have the necessary competencies to provide on-the-job training using the upgraded systems and newly installed scan equipment to the frontline associates at the company's expense.

**Distribution Order System (DOS)**

The upgraded DOS computer system will affect the entire flow of merchandise through the facility referred to as "DOS Flow". DOS Flow will allow the company to streamline many of its processes in receiving, order filling, bill of lading preparation, inventory control and finally product distribution. These changes will allow SLS to better plan and manage its inventory and delivery capabilities as the upgrades will provide them with visibility to merchandise loads and orders prior to the facility receiving the product in its warehouse. The current DOS system was originally an SLS designed system that is now considered too archaic, too hard to maneuver, and not expandable in its current form. The system is being converted to a Windows based format which will improve ease of operation, provide new screens to capture more data and can easily be upgraded in the future. These upgrades will affect the entire flow of

**NARRATIVE: (continued)**

merchandise through the facility and will allow for the processes to be done in a more automated manner allowing for improved efficiency and accuracy across all departments.

**Wireless Receiving Devices (Palm Pilot)**

In order to facilitate the DOS Flow at the receiving end, trainees will be trained on how to use a sophisticated Palm Pilot device, which will allow the merchandise to be scanned into the system rather than manually counted and entered by hand.

**Upgraded Radio Frequency Scanners (RF Scanners)**

Through the use of radio frequency scanners (RF Scanners), employees will be able to track oversized merchandise, including receiving and shipping information and inventory functions, and will have the ability to move loads internally in the system without leaving the distribution floor.

**Sorter Sortation System**

The Sorter Sortation System will allow for faster receipt, routing, and distribution of merchandise. A new equipment module in this system called "903 module" will enable workers to do more cross-dock operations for faster delivery of products.

**Yard Management System (YMS)**

The YMS is a computer system that tracks trailer locations and content status for purposes of coordinating merchandise loading and unloading activities.

**Flowpath Optimization System**

The Flowpath Optimization System is a new system that will identify an item's most cost efficient flowpath through the facility, allow for optimal use of facility storage and distribution systems and aid in cost modeling and forecasting processes.

**Microsoft Applications**

The new system and process of evaluating performance and providing feedback requires the use of computer programs to enter and track data related to associate training, quality, and performance. These Computer Skills are completely new to the Trainer occupation. The Trainers will be given access to computers for the first time and will need this training to perform this added function.

**MANUFACTURING SKILLS**

Maintenance Workers will receive the training in Manufacturing Skills necessary to understand, troubleshoot, and maintain the new computer technology and equipment. The equipment required to run new and upgraded systems is more complex and requires an advanced set of skills not required by this occupation in the past.

**Supplemental Nature of Training**

The proposed training is primarily designed to train employees on the company's new and upgraded systems and equipments. This training is aimed at providing advanced skill levels to meet the requirements of the current level of technology. ETP funding will allow more workers to be trained and produce a more efficient workforce.

**NARRATIVE: (continued)**

Currently, SLS continues to provide many of the teamwork and job-specific refresher courses from the previous contracts. The company also provides new hire and safety training to its frontline workforce at its own expense.

During the term of this ETP contract, SLS will provide specialized on-the-job skills training on the new and upgraded systems and accompanying process and procedures to its frontline associates. This training is not included in this proposal and will be provided at the company's expense.

ETP funding will allow the company to undertake this entire supplemental training effort, which would not otherwise be possible. The Company's annual training budget for ongoing training has been approximately \$800,000 which is insufficient to support the proposed supplemental training program.

Following the completion of the ETP program, SLS anticipates devoting approximately 4.5 percent of employee time to ongoing training and implementation of continuous process improvement. The total projected training expenditure after the completion of the ETP training is approximately \$850,000 per year.

**In-Kind Contribution**

SLS's contributions to the training program will include paying employee wages during training. The cost for employee wages during training will be at least \$341,320.

**COMMENTS:**

All participants in the project meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400(ee) except for 8 Managers (5 percent of the training population). The company has certified in writing that no executive level staff who set company policy has been included in this Agreement.

**Full-Time Worker Definition Waiver Request**

On SLS's last two contracts, the Panel approved a waiver to Title 22 California Code of Regulations Section 4400(h) that defines full-time employment as "at least 35 hours a week for a period of 90 consecutive days..." SLS is again requesting a waiver to allow an average of 35 hours a week for a period of 90 consecutive days to constitute full-time employment. The workweek at the SLS Delano facility is 30 hours minimum *guaranteed* for the full-time, year round workforce. The company has submitted supporting information in chart form showing work hours of each full-time employee for calendar year 2001 to average 35 hours per week. For most listed employees, the workweek averages closer to 40 hours per week. The bulk of business occurs between August and September in preparation for the holiday season. To avoid the situation of annual layoffs between October and July, the company provides for workweek reduction for year-round employees, rather than laying them off. Based on this company policy and on the fact that the work week averages 35 or more hours per trainee – and stipulated as such in the accompanying Agreement – the company requests that ETP find these conditions to constitute full-time employment.

**COMMENTS: (continued)**

**Substantial Contribution**

Title 22, California Code of Regulations, Section 4410 states in part that "a substantial contribution of not less than 30 percent of the total Panel training and administrative costs, exclusive of in-kind contributions and/or any other special contributions required by Panel, shall be imposed on any employer for retraining at a facility which previously benefited, directly or indirectly, from Panel funding under at least two prior Panel agreements at the same facility in the amount of \$250,000 or more." Additionally, the substantial contribution is applied only if both prior Agreements were within the last five years.

SLS Delano facility has two prior ETP Contracts within the last five years with total earnings of over \$250,000. Therefore, a substantial contribution of 30 percent amounting to \$100,464 is applied to this project.

**PROPOSED ACTION:**

Staff recommends that the Panel approve the One-Step Agreement and the waiver request, if funding is available and the project meets the Panel priorities. This recommendation is based on Sears Logistics' stated need to provide its employees with skills to become a high performance workplace to enhance the company's ability to remain competitive, to grow, and to satisfy customer needs. The implementation of this proposed training will enable the company to remain viable in the California economy.

**TRAINING PLAN:**

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Retrainee Job 1	Manufacturing Skills	14	80	0	0	\$728	\$13.25-\$19.60
Retrainee Jobs 2	Continuous Improvement, Computer Skills	154	160	0	0	\$1,456	\$11.05-\$28.00
						<b><u>Range of Hourly Wages</u></b>	
						\$11.05-\$28.00	
						<b><u>Prevalent Hourly Wage</u></b>	
						\$13.25	
						<b><u>Average Cost per Trainee</u></b>	
						\$1,395	
<b><u>Health Benefit used to meet ETP minimum wage:</u></b>					<b><u>Turnover Rate</u></b>	<b><u>% of Mgrs &amp; Supervisors to be trained:</u></b>	
N/A					15%	5%	

## **CURRICULUM**

### **JOB 1**

#### **Class Hours**

**80**

#### **MANUFACTURING SKILLS**

Skills related to installation, maintenance and security of new and upgraded systems and equipment:

- Semiconductor
- Diodes
- Zener Diodes
- DC Power Supply
- Solid State Transducers
- Transistors DC Switch
- Thyristors and TRIAC
- Terminal Speed Control Devices
- Intermediate Electricity and Circuitry
- Advanced Programmer Logic Controllers (PLC)
- Touch Screen Operator Terminal
- Touch Screen/PLC Interface
- Control System Troubleshooting and Malfunctions
- Technical Math Skills

## **CURRICULUM**

### **JOB 2**

#### **Class Hours**

**160**

**Trainees will receive any of the following:**

#### **COMPUTER SKILLS**

- Distribution Order System (DOS)
- Wireless Receiving Devices (Palm Pilot)
- Upgraded Radio Frequency Scanners (RF Scanners)
- Sorter Sortation System
- Yard Management System (YMS)
- Flow Path Optimization System
- Microsoft word processing, spread sheeting and database applications

#### **CONTINUOUS IMPROVEMENT SKILLS**

- DOS Flow Process
- Flow Path Optimization
- Thru-put Facilitation
- Process and Procedure Improvements
- Quality Concepts
- Product Identification/Sortation Processes
- Best Practices Inbound/Outbound
- Performance Improvement/Accountability
- Associate Performance Evaluation System
- Business Issue Resolution Techniques
- Effective Leadership Skills
- Assimilating Change